

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

ROCKCASTLE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts was engaged to audit the Rockcastle County Fiscal Court for fiscal year ended June 30, 2002. We have disclaimed an opinion on the financial statements. The fiscal court has serious weaknesses in their accounting function. We were unable to place reliance on the public properties transactions or the general obligation bonds transactions. Their materiality, our inability to apply other auditing procedures to those accounts, and the high risk factors associated with the audit prevent us from expressing an opinion on the County's financial statements.

Report Comments:

- 2002-1 The County Treasurer Should Provide Auditors With A Financial Statement And Bank Statements For The Public Properties Corporation
- 2002-2 The County Treasurer Did Not Maintain A Check Distribution Ledger As Required By The Uniform System Of Accounts
- 2002-3 The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank
- 2002-4 The County Should Comply With KRS 65.140, Which Requires That Invoices Be Paid Within 30 Working Days
- 2002-5 The County's Road And Bridge Fund Should Not Have A Deficit Fund Balance
- 2002-6 Budget Amendments Should Be Properly Recorded In Financial Statements
- 2002-7 The County Should Have Maintained Two Appropriation Expenditure Ledgers As Required By The Uniform System Of Accounts
- 2002-8 The County Treasurer Should Not Countersign Checks If There Is Not A Sufficient Free Balance In The Budget Appropriation Account
- 2002-9 The Fiscal Court Should Review Administrative Code Annually As Required By KRS 68.005
- 2002-10 The County Treasurer Should Prepare A Schedule Of Expenditures Of Federal Awards
- 2002-11 The County Judge/Executive's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government
- 2002-12 The Jailer's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government
- 2002-13 The County Should Maintain Time Records For All Employees
- 2002-14 Prior Year Transfers From Restricted Funds Should Be Returned
- 2002-15 County Officials Should Be Adequately Bonded
- 2002-16 The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Should Enter Into A Written Agreement With The Depository Institution
- 2002-17 The County Should Not Participate In Related Party Transactions
- 2002-18 Receipts Listed On Fourth Quarter Financial Report Should Agree With Receipts Ledger
- 2002-19 The County Treasurer Should Prepare A Bank Reconciliation For Payroll Revolving Account
- 2002-20 All Expenditures Should Be Recorded In The Appropriations Ledger
- 2002-21 Jail Invoices Should Be Approved By The Fiscal Court Prior To Payment Being Made
- 2002-22 Lacked Adequate Segregation Of Duties

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable George (Buzz) Carloftis, Rockcastle County Judge/Executive

Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We were engaged to audit the statement of assets, liabilities, and equity arising from cash transactions of Rockcastle County, Kentucky, as of June 30, 2002, and the statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of Rockcastle County, Kentucky's management

During our engagement, we noted that the fiscal court had serious weaknesses in their financial reporting function. We were unable to place reliance on the public properties corporation's transactions or the general obligation bonds transactions. Their materiality, our inability to apply other auditing procedures to those accounts, and the high risk factors associated with the audit prevent us from expressing an opinion on the County's financial statements.

Because we were unable to place reliance on the public properties corporation's transactions or the general obligation bond transactions and because audit risk is at an unacceptable level, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated June 25, 2004, on our consideration of Rockcastle County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our work performed.

Based on the results of our work performed, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2002-1 The County Treasurer Should Provide Auditors With A Financial Statement And Bank Statements For The Public Properties Corporation
- 2002-2 The County Treasurer Did Not Maintain A Check Distribution Ledger As Required By The Uniform System Of Accounts
- 2002-3 The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

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Members of the Rockcastle County Fiscal Court

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- 2002-10 The County Treasurer Should Prepare A Schedule Of Expenditures Of Federal Awards
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- 2002-22 Lacked Adequate Segregation Of Duties

Respectfully submitted,



Crit Luallen

Auditor of Public Accounts

Fieldwork completed -

June 25, 2004

ROCKCASTLE COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

George (Buzz) Carloftis	County Judge/Executive
John Holbrook	Magistrate
Jack R. Bradley	Magistrate
Billy R. McKinney	Magistrate
Fred Mullins, Jr.	Magistrate
Donald Bullock	Magistrate

Other Elected Officials:

Jeffrey T. Burdette	County Attorney
James E. Miller	Jailer
Norma Houk	County Clerk
Teresa Vanzant	Circuit Court Clerk
Shirley Smith	Sheriff
Margaret Offutt	Property Valuation Administrator
Bill W. Dowell	Coroner

Appointed Personnel:

Joseph B. Clontz	County Treasurer
Anna R. Mullins	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

ROCKCASTLE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Type</u>		<u>Totals (Memorandum Only) Reporting Entity</u>
	<u>General</u>	<u>Special Revenue</u>	
<u>Assets</u>			
Cash	\$ 287,505	\$ 236,595	\$ 524,100
Total Assets	<u>\$ 287,505</u>	<u>\$ 236,595</u>	<u>\$ 524,100</u>
<u>Equity</u>			
Fund Balances:			
Unreserved	\$ 287,505	\$ 236,595	\$ 524,100
Total Equity	<u>\$ 287,505</u>	<u>\$ 236,595</u>	<u>\$ 524,100</u>

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

ROCKCASTLE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Type	Special Revenue Fund Type		
				Local Government Economic Assistance Fund
<u>Cash Receipts</u>	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Jail Fund</u>	
Operating Revenue	\$ 956,046	\$ 920,749	\$ 896,288	\$ 55,463
Other Financing Sources:				
Transfers In	60,000	109,000		
Lease Proceeds	47,500	480,000		
Total Cash Receipts	<u>\$ 1,063,546</u>	<u>\$ 1,509,749</u>	<u>\$ 896,288</u>	<u>\$ 55,463</u>
<u>Cash Disbursements</u>				
Budgeted Expenditures	\$ 928,459	\$ 1,390,065	\$ 855,379	\$ 51,682
Other Financing Uses:				
Transfers Out	109,000	60,000		
Total Cash Disbursements	<u>\$ 1,037,459</u>	<u>\$ 1,450,065</u>	<u>\$ 855,379</u>	<u>\$ 51,682</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 26,087	\$ 59,684	\$ 40,909	\$ 3,781
Cash Balance - July 1, 2001	<u>54,306</u>	<u>19,837</u>	<u>79,101</u>	<u>3,877</u>
Cash Balance - June 30, 2002	<u>\$ 80,393</u>	<u>\$ 79,521</u>	<u>\$ 120,010</u>	<u>\$ 7,658</u>

ROCKCASTLE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

Special Revenue Fund Type					
Economic Development Fund	Forestry Fund	911 Fund	DES Fund	CSEPP Fund	Office Of Justice Fund
\$ 38,277	\$ 2,283	\$ 159,739	\$	\$ 101,517	\$
<u>\$ 38,277</u>	<u>\$ 2,283</u>	<u>\$ 159,739</u>	<u>\$</u>	<u>\$ 101,517</u>	<u>\$</u>
\$ 34,403	\$ 1,708	\$ 166,696	\$	\$ 104,396	\$ 549
<u>\$ 34,403</u>	<u>\$ 1,708</u>	<u>\$ 166,696</u>	<u>\$</u>	<u>\$ 104,396</u>	<u>\$ 549</u>
\$ 3,874	\$ 575	\$ (6,957)	\$	\$ (2,879)	\$ (549)
24,921	41	74,035	664	28,561	549
<u>\$ 28,795</u>	<u>\$ 616</u>	<u>\$ 67,078</u>	<u>\$ 664</u>	<u>\$ 25,682</u>	<u>\$ 0</u>

ROCKCASTLE COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

	Special Revenue Fund Type			
	Kentucky Music Hall Of Fame Fund	Fairgrounds Fund	Animal Shelter Fund	Totals (Memorandum Only)
<u>Cash Receipts</u>				
Operating Revenue	\$ 2,551,669	\$ 14,300	\$ 55,800	\$ 5,752,131
Other Financing Sources:				
Transfers In				169,000
Lease Proceeds				527,500
Total Cash Receipts	<u>\$ 2,551,669</u>	<u>\$ 14,300</u>	<u>\$ 55,800</u>	<u>\$ 6,448,631</u>
<u>Cash Disbursements</u>				
Budgeted Expenditures	\$ 2,604,216	\$ 13,482	\$ 24,448	\$ 6,175,483
Other Financing Uses:				
Transfers Out				169,000
Total Cash Disbursements	<u>\$ 2,604,216</u>	<u>\$ 13,482</u>	<u>\$ 24,448</u>	<u>\$ 6,344,483</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (52,547)	\$ 818	\$ 31,352	\$ 104,148
Cash Balance - July 1, 2001	<u>154,096</u>	<u>6,388</u>		<u>446,376</u>
Cash Balance - June 30, 2002	<u>\$ 101,549</u>	<u>\$ 7,206</u>	<u>\$ 31,352</u>	<u>\$ 550,524</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON WORK PERFORMED



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George (Buzz) Carloftis, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On Work Performed

We were engaged to audit the financial statements of Rockcastle County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated June 25, 2004, wherein we disclaimed an opinion on those financial statements based on our inability to obtain accurate and complete financial records.

Compliance

As part of our work, we performed tests of Rockcastle County, Kentucky's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not our objective, and accordingly, we do not express such an opinion. The results of our work disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- 2002-1 The County Treasurer Should Provide Auditors With A Financial Statement And Bank Statements For The Public Properties Corporation
- 2002-2 The County Treasurer Did Not Maintain A Check Distribution Ledger As Required By The Uniform System Of Accounts
- 2002-3 The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank
- 2002-4 The County Should Comply With KRS 65.140, Which Requires That Invoices Be Paid Within 30 Working Days
- 2002-5 The County's Road And Bridge Fund Should Not Have A Deficit Fund Balance
- 2002-6 Budget Amendments Should Be Properly Recorded In Financial Statements
- 2002-7 The County Should Have Maintained Two Appropriation Expenditure Ledgers As Required By The Uniform System Of Accounts
- 2002-8 The County Treasurer Should Not Countersign Checks If There Is Not A Sufficient Free Balance In The Budget Appropriation Account
- 2002-9 The Fiscal Court Should Review Administrative Code Annually As Required By KRS 68.005
- 2002-10 The County Treasurer Should Prepare A Schedule Of Expenditures Of Federal Awards
- 2002-11 The County Judge/Executive's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government
- 2002-12 The Jailer's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government
- 2002-13 The County Should Maintain Time Records For All Employees
- 2002-14 Prior Year Transfers From Restricted Funds Should Be Returned

Report On Compliance And On Internal Control
Over Financial Reporting Based On Work Performed
(Continued)

Compliance (Continued)

- 2002-15 County Officials Should Be Adequately Bonded
- 2002-16 The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Should Enter Into A Written Agreement With The Depository Institution
- 2002-17 The County Should Not Participate In Related Party Transactions
- 2002-18 Receipts Listed On Fourth Quarter Financial Report Should Agree With Receipts Ledger
- 2002-19 The County Treasurer Should Prepare A Bank Reconciliation For Payroll Revolving Account
- 2002-20 All Expenditures Should Be Recorded In The Appropriations Ledger
- 2002-21 Jail Invoices Should Be Approved By The Fiscal Court Prior To Payment Being Made

Internal Control Over Financial Reporting

In planning and performing our work, we considered Rockcastle County's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Rockcastle County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations.

- 2002-2 The County Treasurer Did Not Maintain A Check Distribution Ledger As Required By The Uniform System Of Accounts
- 2002-3 The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank
- 2002-8 The County Treasurer Should Not Countersign Checks If There Is Not A Sufficient Free Balance In The Budget Appropriation Account
- 2002-19 The County Treasurer Should Prepare A Bank Reconciliation For Payroll Revolving Account
- 2002-20 All Expenditures Should Be Recorded In The Appropriations Ledger
- 2002-22 Lacked Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition referred to above to be a material weakness.

Report On Compliance And On Internal Control
Over Financial Reporting Based On Work Performed
(Continued)

This report is intended solely for the information and use of management is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Fieldwork completed -
June 25, 2004

COMMENTS AND RECOMMENDATIONS

ROCKCASTLE COUNTY
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2002

NONCOMPLIANCES AND REPORTABLE CONDITIONS

2002-1 The County Treasurer Should Provide Auditors With A Financial Statement And Bank Statements For The Public Properties Corporation

The County did not provide a financial statement or bank statements for the Public Properties Corporation. We made several requests of the County Judge and County Treasurer to obtain the bank statements; however, they did not. Per the June 30, 2000 audit, there was a cash balance of \$1,856,612 and total liabilities of \$3,460,000 in the Public Properties Corporation Fund at June 30, 2000. We can not account for transactions occurring during the fiscal year ended June 30, 2001 and fiscal year ended June 30, 2002. The total liability balance consists of the following:

- Public Property Revenue Bonds, Series 1990, \$285,000 Liability
- Public Properties First Mortgage Revenue Bonds, Series 1991, \$1,510,000 Liability
- Public Properties First Mortgage Refunding Revenue Bonds, Series 1997, \$1,665,000 Liability

We recommend that, in the future, the County Treasurer provide auditors with a financial statement for the Public Properties Corporation. We also recommend that all bank statements be available for examination.

County Treasurer Joseph Clontz' Response:

The County Treasurer provided the auditors with all of the financial information available. There were repeated requests from the County Treasurer, the County Judge Executive, and the County Attorney to Fifth/Third Bank. No additional information was provided by the bank.

2002-2 The County Treasurer Did Not Maintain A Check Distribution Ledger As Required By The Uniform System Of Accounts

The County Treasurer did not maintain a Check Distribution Ledger as required by the Uniform System of Accounts. The Uniform System of Accounts requires that a Check Distribution Ledger be maintained. A Check Distribution Ledger is defined as "a chronological listing of daily disbursements by fund. The ledger must indicate the date, the check number, the payee, the account code, and the amount. (A separate column should be included for investments. Checks issued for the purpose of investments are to be recorded in the investments column and should balance to the investments journal.) Checks are to be posted numerically and all checks are to be recorded, including voided checks. We recommend that the County comply with the Uniform System of Accounts by maintaining a Check Distribution Ledger in the future.

County Treasurer Joseph Clontz' Response:

This has been done. However, it is not being maintained by the County Treasurer. This is a redundancy.

ROCKCASTLE COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Fiscal Year Ended June 30, 2002
 (Continued)

NONCOMPLIANCES AND REPORTABLE CONDITIONS (Continued)

2002-2 The County Treasurer Did Not Maintain A Check Distribution Ledger As Required By
 The Uniform System Of Accounts (Continued)

Auditor's Reply:

The County provided listings of checks for most funds, but not a Check Distribution Ledger for the fiscal year under audit. Furthermore, the Uniform System of Accounts requires the Check Distribution Ledger to be maintained by the County Treasurer.

2002-3 The Cash Balance Per The County's Books Should Agree With The Reconciled Cash
 Balance Per The Bank

The cash balance per the County's books as stated on the 4th Quarter Financial Report does not agree with the reconciled cash balance per the bank as stated on the 4th Quarter Financial Report. These amounts should agree with each other. The difference results from either cash receipts or expenditures not being properly posted on the County's books. The General Fund differed by \$7,417, Road and Bridge Fund differed by \$328, and the Jail Fund differed by \$325. We recommend that the County Treasurer investigate and resolve any differences between the County's book balance and the reconciled bank balance.

County Treasurer Joseph Clontz' Response:

The County Treasurer will reconcile in the future, if material and warranted.

2002-4 The County Should Comply With KRS 65.140, Which Requires That Invoices Be Paid
 Within 30 Working Days

During the course of our engagement, we found that numerous invoices were not paid in a timely manner. KRS 65.140 states that all bills for goods or services shall be paid within thirty working days of receipt of vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. As a result of this, we found that the General Fund had claims of \$20,745, the Road and Bridge Fund had claims of \$103,773, the Animal Shelter Fund had claims of \$711, and the CSEPP Fund had claims of \$9,300, which had not been paid within 30 working days as of June 30, 2002. Had these claims been paid timely there would have been a deficit fund balance of \$24,580 in the Road and Bridge Fund. We recommend that the county comply with KRS 65.140 by paying invoices within 30 working days.

County Judge/Executive George Carloftis' and County Treasurer Joseph Clontz' Response:

Agree with this finding, and assure the auditors that the County's staff and officials are fully aware of the requirements of KRS 65.140.

ROCKCASTLE COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2002
(Continued)

NONCOMPLIANCES AND REPORTABLE CONDITIONS (Continued)

2002-5 The County's Road and Bridge Fund Should Not Have A Deficit Fund Balance

The Road and Bridge Fund had a deficit fund balance of \$24,580 at June 30, 2002. This resulted from accounts payable of \$103,773 as of June 30, 2002, which had not been paid within 30 working days as required by KRS 65.140. The County should not incur expenditures when funds are not available to pay for them. We recommend that the County not make expenditures in the future if sufficient funds are not available to pay for them.

County Judge/Executive George Carloftis' Response:

I am in agreement, and the DLG is aware of this deficit balance for 2002 in the amount of \$24,580. This deficit occurred due to absolutely required maintenance of bridges and roads for safety of the public when funds were not adequate.

2002-6 Budget Amendments Should Be Properly Recorded In Financial Statements

We found budget amendments that were not posted and budget amendments that were improperly posted in the financial records and thereby, incorrectly reported on the quarterly financial statement. This condition allowed inaccurate financial reports to be prepared, used by the fiscal court, and filed with the Department for Local Government. We recommend budget amendments be properly posted, reconciled, and reported in financial records and quarterly reports. We recommend the County Treasurer follow the Uniform System of Accounts, established under the authority of KRS 68.210 which provides guidelines for posting and recording budget amendments.

County Judge/Executive Carloftis' and County Treasurer Joseph Clontz' Response:

This is not correct.

Auditor's Reply:

Documentation provided to auditors by the County indicates that budget amendments were not always posted as required.

2002-7 The County Should Have Maintained Two Appropriation Expenditure Ledgers As Required By The Uniform System Of Accounts

The County did not maintain two appropriation ledgers as required by the Uniform System of Accounts, which is stipulated by the Department for Local Government. The Uniform System of Accounts states "The appropriation expenditure ledgers are to be maintained independently by the office of the county judge/executive and the county treasurer. Reconciliations should be made at least monthly in order to ensure accuracy. Counties utilizing computers to maintain books of accounts in the treasurer's office must maintain an appropriation expenditure ledger within the office of the county judge/executive independently from the computer system in the treasurer's office." There was only one appropriation ledger maintained by the County. The County Treasurer maintained the Jail Fund section of the appropriations ledger and the Finance Officer maintained all other funds. The two sections were then combined into one complete appropriations ledger. As a result of only one appropriation ledger being maintained, there

ROCKCASTLE COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Fiscal Year Ended June 30, 2002
 (Continued)

NONCOMPLIANCES AND REPORTABLE CONDITIONS (Continued)

2002-7 The County Should Have Maintained Two Appropriation Expenditure Ledgers As Required By The Uniform System Of Accounts (Continued)

were errors on the 4th Quarter Financial Report. These errors would have been found and could have been corrected by maintaining dual ledgers and reconciling them at least once monthly, as required by the Uniform System of Accounts. We recommend that the County comply with the Uniform System of Accounts by maintaining two appropriation ledgers in the future.

County Treasurer Joseph Clontz' Response:

The county is currently maintaining the appropriations ledger on a computerized basis.

Auditor's Reply:

The Uniform System of Accounts requires two complete sets of appropriation expenditure ledgers. The County Treasurer should maintain one complete set and the Finance Officer should maintain one complete set.

2002-8 The County Treasurer Should Not Countersign Checks If There Is Not A Sufficient Free Balance In The Budget Appropriation Account

The County Treasurer countersigned checks issued out of the jail fund when there was not a free balance in the budget appropriation accounts to cover the checks. *The Instructional Guide For County Budget Preparation & State Local Finance Officer Policy Manual* issued by the Department for Local Government states that the County Treasurer should only countersign checks if there is adequate free balance in a properly budgeted appropriation account to cover the check. There is a negative free balance of \$2,437 in the jail fund, which results from County expenditures being made without sufficient budget to cover the payments. We recommend that the County Treasurer not countersign checks if there is not sufficient free balance in the budget.

County Treasurer Joseph Clontz' Response:

I am in agreement with the finding and have examined the documentation.

2002-9 The Fiscal Court Should Review Administrative Code Annually As Required By KRS 68.005

The fiscal court did not review the administrative code during the fiscal year as required by KRS 68.005 (2), which states that the fiscal court shall review the county administrative code annually during the months of June and May, by a two-thirds majority of the fiscal court, and amend the County's administrative code at that time. We recommend compliance with this statute in the future.

County Judge/Executive George Carloftis' Response:

The Administrative Code is brought up for consideration in regular meetings annually. No action has been taken to alter the Administrative Code; therefore, Minutes of the Fiscal Court do not record a lack of action by the court.

ROCKCASTLE COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2002
(Continued)

NONCOMPLIANCES AND REPORTABLE CONDITIONS (Continued)

2002-10 The County Treasurer Should Prepare A Schedule Of Expenditures Of Federal Awards

The County Treasurer did not prepare a Schedule of Expenditures of Federal Awards. It is important for the County to properly prepare this schedule. This schedule should include all federal revenues and expenditures for the fiscal year. Auditors use this schedule in order to determine whether or not the county is subject to Single Audit requirements. If the Schedule of Expenditures of Federal Awards is not prepared or is not prepared properly, then the auditors cannot make a clear determination of whether or not a Single Audit is necessary. When required, if a Single Audit is not performed, the County could be in danger of losing federal funding in the future. We recommend that this schedule be properly prepared in the future.

County Judge/Executive George Carloftis' Response:

This information is in the financial records.

Auditor's Reply:

The County Treasurer should prepare a Schedule of Expenditures of Federal Awards separate from other financial records.

2002-11 The County Judge/Executive's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government

The County Judge/Executive's salary was not paid in accordance with the salary schedule set by the Department for Local Government (DLG). The County Judge/Executive received \$64,324 as salary during calendar year 2001. The salary set by DLG for calendar year 2001 was \$61,306. This results in a salary overpayment to the Judge/Executive in the amount of \$3,018. We recommend that the County Judge/Executive reimburse \$3,018 to the County in order to be in full compliance with the salary approved by DLG.

County Treasurer Joseph Clontz' Response:

The County Judge/Executive's salary for the fiscal years audited complied with DLG's salary schedule. The County does not see the need to take any action.

Auditor's Reply:

The salary schedule set by DLG is based on a calendar year instead of a fiscal year. Records provided to auditors by the County document that the County Judge/Executive's salary was not paid in accordance with the schedule.

ROCKCASTLE COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2002
(Continued)

NONCOMPLIANCES AND REPORTABLE CONDITIONS (Continued)

2002-12 The Jailer's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government

The Jailer's salary was not paid in accordance with the salary schedule set by the Department for Local Government (DLG). The Jailer received \$61,264 as salary during calendar year 2001. The salary set by DLG for calendar year 2001 was \$59,846. This results in a salary overpayment to the Jailer in the amount of \$1,418. We recommend that the Jailer reimburse \$1,418 to the County in order to be in full compliance with the salary approved by DLG.

County Treasurer Joseph Clontz' Response:

This finding is in error. The jailer's salary per fiscal year was in agreement with DLG's salary schedule and incentive payments to the Jailer. The County does not intend to take any action.

Auditor's Reply:

The salary schedule set by DLG is based on a calendar year instead of a fiscal year. Records provided to auditors by the County document that the Jailer's salary was not paid in accordance with the schedule.

2002-13 The County Should Maintain Time Records For All Employees

Timesheets for all employees could not be located for fiscal year ended June 30, 2002. Pursuant to KRS 337.320, "Every employer shall keep a record of...the hours worked each day and each week by each employee....Such records shall be kept on file for at least one year after entry." We recommend that the fiscal court maintain appropriate time records.

County Judge/Executive George Carloftis' Response:

This finding by auditors is in error. The County does maintain time records for all employees.

Auditor's Reply:

The County could not provide an original or a copy of timesheets for all employees tested during the audit.

ROCKCASTLE COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2002
(Continued)

NONCOMPLIANCES AND REPORTABLE CONDITIONS (Continued)

2002-14 Prior Year Transfers from Restricted Funds Should Be Returned

During fiscal year ended June 30, 2000, the county transferred restricted Road and Bridge monies to the Disaster and Emergency Services Fund (DES) Fund, without returning it. As of June 30, 2002 the amount due the Road and Bridge Fund from the DES Fund was \$1,843. In addition, the county transferred restricted Jail Funds to the General Fund, Road and Bridge Fund, and the Jail Commissary Account. The restricted funds were not returned to the Jail Fund. As of June 30, 2002 the General Fund owed \$4,094, the Road and Bridge Fund owed \$13,010, and the Jail Commissary Account owed \$255 to the Jail Fund. The County also transferred restricted Local Government Economic Development Fund (LGED) monies to the General Fund without returning them. As of June 30, 2002 the amount due the LGED Fund was \$21,571.

It was recommended in the prior year audit report that the monies be returned to the restricted county funds. As of June 30, 2002 these funds have not been returned. We recommend that the County return the monies to the restricted county funds.

County Judge/Executive George Carloftis' Response:

Until researched more thoroughly, I must disagree with this finding. It is impossible to believe that required transfers did not occur by the office staff, because the staff always looked carefully at these items.

2002-15 County Officials Should Be Adequately Bonded

The County Coroner was not adequately bonded. KRS 72.010 states, "Every coroner shall execute bond in the minimum amount of ten thousand dollars (\$10,000) with sureties approved by the fiscal court. The bond shall be recorded by the fiscal court in the office of the county clerk." The bond on file for the County Coroner was for \$5,000; therefore, he was not adequately bonded. We recommend that officials be adequately bonded and the proper documentation be filed in the County Clerk's office.

County Judge/Executive George Carloftis' Response:

Agree with the finding in part only. Rockcastle County Coroner does not handle county funds.

Auditor's Reply:

KRS 72.010 does not address whether or not the Coroner handles County funds, but requires a bond of \$10,000.

ROCKCASTLE COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Fiscal Year Ended June 30, 2002
 (Continued)

NONCOMPLIANCES AND REPORTABLE CONDITIONS (Continued)

2002-16 The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Should Enter Into A Written Agreement With The Depository Institution

On August 31, 2001, \$212,667 of the County's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The county should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the County enter into a written agreement with the depository institution to secure the County's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Judge/Executive George Carloftis' Response:

No written response provided.

2002-17 The County Should Not Participate In Related Party Transactions

The County conducted business with Brodhead Farm Equipment, which is owned by Magistrate Billy McKinney's brother. The County paid Brodhead Farm Equipment \$11,387 for equipment and parts during FYE June 30, 2002. In addition, County Treasurer Joseph Clontz owns a CPA firm which was paid \$2,750 to perform payroll services for the County. The County should refrain from participating in related party transactions in the future. We recommend that the Rockcastle County Ethics Commission review these transactions for their appropriateness.

County Judge/Executive George Carloftis' Response:

Rockcastle County's officials do not sell items to the County. Each local government writes its own code of ethics; the code is not written by state officials. It is not a violation of Rockcastle County's Code of Ethics for the County to make a purchase from a related party to the fiscal court. In addition, the magistrate made the disclosure, as required, in the financial disclosure statement issued by him. The County made no error in the purchase; the magistrate correctly reported the purchase from a related party. Disagreement is, therefore, made with the improper finding of the auditor.

Auditor's Reply:

Accounting standards require disclosure of related party transactions.

ROCKCASTLE COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2002
(Continued)

NONCOMPLIANCES AND REPORTABLE CONDITIONS (Continued)

2002-18 Receipts Listed On Fourth Quarter Financial Report Should Agree With Receipts Ledger

The receipts listing included with the 4th Quarter Financial Report did not trace back to the receipts ledger maintained by the County for several of the receipt accounts. This results in the 4th Quarter Financial Report being incorrect. We recommend that controls be established where the Quarterly Financial Reports are reviewed for accuracy before being submitted to the Department for Local Government. The receipt listing included with the reports should always agree with the County's receipts ledger.

County Treasurer Joseph Clontz' Response:

The receipts ledger should have been reconciled with the 4th Quarter Financial Report. Had the auditors communicated the discrepancy, the differences would have easily been resolved.

Auditor's Reply:

It is the County's responsibility to develop and implement internal control procedures to identify and correct discrepancies prior to submission of the 4th Quarter Financial Report. This is not a function of the audit process.

2002-19 The County Treasurer Should Prepare A Bank Reconciliation For The Payroll Revolving Account

We found during our review of the County's payroll revolving account, that the County Treasurer is not reconciling the bank balance back to the book balance for the account. The County Treasurer should always prepare bank reconciliations for all bank accounts of the County. We recommend that adequate records be maintained to account for all payroll related items and that the bank balance be reconciled back to these records in the future.

County Treasurer Joseph Clontz' Response:

Gross payroll and matching FICA and Medicare are transferred from each fund per payroll period. After all withholdings are paid, there should be a \$500 balance in the account, as required by the local bank to keep the account active.

2002-20 All Expenditures Should Be Recorded In The Appropriations Ledger

We found during our testing of expenditures, that one item tested in the amount of \$14,275 had not been recorded in the County's appropriations ledger. All expenditures should be posted to the appropriate account in the appropriations ledger. We recommend that the County properly post all expenditures to the appropriations ledger in the future.

County Judge/Executive George Carloftis' Response:

The County Judge agrees with this finding.

ROCKCASTLE COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2002
(Continued)

NONCOMPLIANCES AND REPORTABLE CONDITIONS (Continued)

2002-21 Jail Invoices Should Be Approved By The Fiscal Court Prior To Payment Being Made

We found during our testing of expenditures, that the fiscal court does not approve jail fund invoices. The fiscal court is required to approve all invoices prior to payment being made by the county. We recommend that the fiscal court approve all invoices for payment prior to payment being made, in the future.

County Judge/Executive George Carloftis' and Treasurer Joseph Clontz' Response:

All claims are paid and approved by the fiscal court's magistrates. No payment is made contrary to this requirement. The jail fund invoices are maintained at the Treasurer's office; and a detailed listing of each vendor and amount owed is presented to the fiscal court on a monthly basis. Both the County Treasurer and County Judge/Executive have been in office at least 11 years and make absolutely certain that payments are not made without fiscal court approval as a standard operating procedure. This finding is completely in error.

Auditor's Reply:

Review of the fiscal court minutes revealed no evidence that jail invoices are submitted for approval prior to payment.

2002-22 Lacked Adequate Segregation Of Duties

The Rockcastle County Fiscal Court lacked an adequate segregation of duties. We recommend that a qualified office employee independent of check writing and posting duties, match purchase orders to checks and invoices. Also we recommend that the person opening the mail keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for. This will help segregate the duties of the County Treasurer and may reduce audit costs in the future. Initialing the purchase orders and invoices by this person, and making sure the invoices are marked paid can be shown as evidence of this segregation of duties. To have better internal controls, it is a best practice to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals.

County Judge/Executive Carloftis' and County Treasurer Joseph Clontz' Response:

The County Treasurer and County Judge/Executive state there are not enough funds to hire the additional staff to meet required segregation of duties. The Judge's office staff goes to the post office to pick up all mail, makes copies of all checks to keep in the Judge's office, and turns in all checks to the Treasurer for deposit. There is no possibility, under present financial conditions, to increase the staff for further segregation of duties.

ROCKCASTLE COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2002
(Continued)

PRIOR YEAR FINDINGS

- The County Treasurer Should Provide Auditors With A Financial Statement And Bank Statements For The Public Properties Corporation
- The County Treasurer Did Not Maintain A Check Distribution Ledger As Required By The Uniform System Of Accounts
- The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank
- The County's Road and Bridge Fund And Local Government Economic Development Fund Should Not Have A Deficit Fund Balance
- Budget Amendments Should Be Properly Recorded In Financial Statements
- The County Should Have Maintained Two Appropriation Expenditure Ledgers As Required By The Uniform System Of Accounts
- The County Treasurer Should Not Countersign Checks If There Is Not A Sufficient Free Balance In The Budget Appropriation Account
- The County Did Should Comply With KRS 65.140, Which Requires That Invoices Be Paid Within 30 Working Days
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Treasurer Should Prepare A Schedule Of Expenditures Of Federal Awards
- The County Judge/Executive's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government
- The Jailer's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government
- The County Should Maintain Time Records For All Employees
- Prior Year Transfers From Restricted Funds Should Be Returned
- County Officials Should Be Adequately Bonded
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Should Enter Into A Written Agreement With The Depository Institution
- Invoices Should Be Effectively Cancelled After Payment Is Made To Prevent Duplicate Payment From Being Made
- Lacked Adequate Segregation Of Duties

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

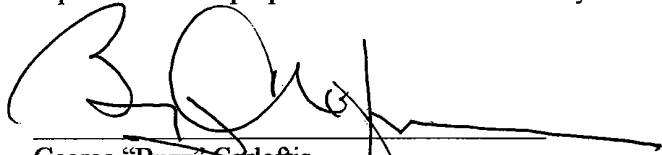
ROCKCASTLE COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

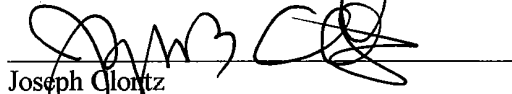
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ROCKCASTLE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2002

The Rockcastle County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A large, stylized handwritten signature in black ink, appearing to read 'B. Carloftis', written over a horizontal line.

George "Buzz" Carloftis
County Judge/Executive

A handwritten signature in black ink, appearing to read 'J. Clontz', written over a horizontal line.

Joseph Clontz
County Treasurer

